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UNITED DRUG, INC.

ANNUAL REPORT

December 31, 1941

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Transfer Agents

Guaranty Trust Company of New York, New York
State Street Trust Company, Boston

Registrars

The Chase National Bank of the City of New York, New York
The National Shawmut Bank of Boston, Boston

Counsel

Gaston, Snow, Hunt, Rice and Boyd, Boston
Root, Clark, Buckner and Ballantine, New York

March 2, 1942

To the Stockholders of United Drug, Inc.:

The annual report of your company, herewith submitted, presents a consolidated balance sheet, consolidated statement of profit and loss and earned surplus for the year ended December 31, 1941 The assets, liabilities and operating profits of our English and South African companies are not included in the accompanying statement. Our investment in these companies is shown separately on the balance sheet.

SALES

The consolidated sales for the year amounted to $102,460,960.07. This is the largest volume since the organization of this company and represents an increase of $12,162,827.37, or 13% over the previous year's sales of $90,298,132.70.

EARNINGS

The consolidated net income of your company and its subsidiaries for the year amounts to $2,527,424.15, or $1.80 per share on the capital stock outstanding, after providing for depreciation, bond interest, loss on guaranteed leases and Federal and Canadian income and excess profits taxes. These figures include $140,228.28 expressed in U. S. dollars, of earnings of the Canadian subsidiaries.

Federal and Canadian income and excess profits taxes charged to earnings in 1941 were $1,619,385.20 against $426,138.35 in 1940.

The management felt it prudent, in view of unsettled economic conditions, to increase the reserves against possible losses in material prices and for other contingencies that might be occasioned by war conditions. Additional reserves of $300,000 were, therefore, set up and charged to earnings. This brings our general reserves for these purposes to $665,000.

Stated by Way of Summary:

1. We earned a consolidated net operating profit, after deducting $300,000. for war time reserves, and $55,602.54 for amortization of plant moving and re-arrangement expenses and other interest	$6,151,821.06	
2. To which we added investment and interest income .	81,055.48	$6,232,876.54
3. From which we deducted:		
a. Interest paid on Funded Debt	$1,672,130.82	
b. Loss on Guaranteed Leases	413,936.37	
c. Federal and Canadian Income and Excess Profits Taxes	1,619,385.20	3,705,452.39
4. Leaving a final net profit of		$2,527,424.15
		or $1.80 per share.
5. Which compares with 1940 net profit of		$1,103,944.83
		or $.79 per share.

BALANCE SHEET ITEMS

Earned surplus as of December 31, 1941 amounted to $10,882,411.84, and includes a net credit of $47,742.31 for discount on United Drug Company bonds purchased during the year. Surplus was charged with $35,351.84 covering unrealized exchange losses in the conversion of the net current assets of Canadian subsidiaries to U. S. dollars. Realized losses of $222,881.57 on sale of real estate and a provision of $156,995.31 for possible losses on future disposition of non-operating real estate were also charged to surplus.

Working capital amounted to $28,384,285, an increase of $2,001,191, and cash and marketable securities were $8,171,842, a decrease of $629,342.

Inventories were $24,081,639, an increase of $3,893,269 over 1940. Difficulty in obtaining raw materials for manufacturing, and merchandise for resale, makes it necessary to carry larger reserve stocks, the price level of which at the end of 1941 was higher than at December 31, 1940.

Bonds of United Drug Company of $747,000 par value were purchased in the year, making a total in the treasury at December 31, 1941 of $1,500,000.

DIVIDENDS

No dividends were declared on the capital stock of the company during 1941. Your directors are of the opinion that no dividend action should be taken at this time in view of the business uncertainties created by the war and the need for conserving funds for maturing funded debt, working capital and for increased inventories.

CONCLUSION

On behalf of the Board of Directors, I am happy to record their sincere appreciation for the loyal and efficient services rendered by our employees; for the support given our company by our thousands of customers and for the continued confidence of our stockholders.

Respectfully submitted,

JOSEPH A. GALVIN,
President.

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AND SUBSIDIA
CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand		$ 7,514,314.73	
Marketable securities and call loans (*value based on December 31, 1941 market quotations, approximately $668,000*)		657,527.58	
Accounts and notes receivable:			
Customers' accounts and notes	$6,235,096.48		
Miscellaneous	298,415.81		
	$6,533,512.29		
Less — Reserves for doubtful balances, discounts, etc.	539,697.05	5,993,815.24	
Inventories of merchandise, partly finished stocks, materials and supplies (*at cost or market whichever lower*) — Note 2		24,081,639.24	$38,247,296.79
INVESTMENTS AND ADVANCES, ETC.:			
Customers' non-current notes receivable and advances, less reserves		$ 225,217.61	
Miscellaneous advances, notes, claims and deposits, less reserves (*including $75,194.93 due from employees*)		472,116.51	
Investments in and advances to English and South African subsidiaries, wholly owned (*book value of underlying net assets expressed in U. S. dollars, $505,569 — Note 1*)		400,161.20	
Miscellaneous investments, at or below cost, less reserves		207,594.49	1,305,089.81
PROPERTY ACCOUNTS — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*):			
Land, buildings, and building fixtures		$ 9,178,462.70	
Machinery and equipment, etc.		8,710,259.92	
Store fixtures and improvements		11,458,011.69	
		$29,346,734.31	
Less — Reserves for depreciation		14,454,181.89	14,892,552.42
DEFERRED CHARGES:			
Prepaid insurance, taxes, rent, etc. and advertising supplies		$ 603,364.61	
Plant moving and rearrangement expenses		53,298.85	656,663.46
GOODWILL, TRADE-MARKS, ETC.			6,300,000.00
			$61,401,602.48

(Reference is made to the accompa

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LIABILITIES

CURRENT LIABILITIES:		
Accounts payable, accrued expenses, etc.	$ 7,782,153.27	
Accrued interest on funded debt	473,958.31	
Reserves for estimated Federal and Canadian income and excess-profits taxes — Note 3	1,606,900.43	$ 9,863,012.01
REAL ESTATE PURCHASE OBLIGATIONS, MATURING AFTER 1942		217,541.99
FUNDED DEBT:		
Twenty-five year 5% debenture bonds of United Drug Company, due March 15, 1953:		
Authorized and issued, $40,000,000, less $6,000,000 retired	$34,000,000.00	
Less — In treasury, held for retirement (*including $750,000 principal amount available to meet the annual sinking fund payment due March 15, 1942*)	1,500,000.00	32,500,000.00
RESERVES:		
Maintenance of store fixtures and improvements	$ 182,000.28	
General reserves for possible future losses and adjustments attributable to war conditions and other unforeseen contingencies (*representing the balance of contingency reserves at December 31, 1940, $348,988.95, increased during the year by $300,000 charged to profit and loss and $16,011.05 transferred from miscellaneous reserves*)	665,000.00	
Miscellaneous reserves and deferred income	29,994.16	876,994.44
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Authorized and issued — 1,400,560 shares, par value $5 each	$7,002,800.00	
Capital surplus	588,319.29	
Earned surplus since September 1, 1933 (*representing principally surplus earnings of subsidiary companies since that date which have not been distributed to the parent company*) — per accompanying statement	10,882,411.84	
	$18,473,531.13	
Less — Cost of 48,976 shares of capital stock of United Drug, Inc. acquired and held by subsidiary company for corporate purposes	529,477.09	17,944,054.04
		$61,401,602.48

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UNITED DRUG, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1941

Sales, less returns, allowances and discounts		$102,460,960.07
Cost of sales, selling, general and administrative expenses (*including depreciation of* $1,293,174.35)		95,953,536.47
Profit from operations		$ 6,507,423.60
Other income:		
Income from investments	$ 20,910.41	
Interest on notes receivable, etc.	37,607.40	
Miscellaneous (net)	22,537.67	81,055.48
		$ 6,588,479.08
Other charges:		
Interest on funded debt	$1,672,130.82	
Other interest	7,602.54	
Loss from operation of guaranteed leases	413,936.37	
Amortization of plant moving and rearrangement expenses	48,000.00	
General reserves provided for possible future losses and adjustments attributable to war conditions and other unforeseen contingencies	300,000.00	2,441,669.73
		$ 4,146,809.35
Provision for Federal and Canadian income and excess profits taxes (*including estimated Federal excess profits taxes of* $300,000, *and before reduction for income tax saving mentioned below*) — Note 3		1,619,385.20
Net profit for the year, before deducting charges made to earned surplus below in respect of real estate losses realized and provided for and unrealized Canadian exchange losses		$ 2,527,424.15
Consolidated earned surplus, balance December 31, 1940		8,722,474.10
Discount on purchase of bonds of United Drug Company during the year, less $21,500 of Federal income taxes applicable thereto		47,742.31
		$ 11,297,640.56
Deduct:		
Realized losses from the disposal of real estate (less $54,942.22 of income tax saving attributable thereto), $222,881.57, and provision for possible losses on disposal of other real estate not now necessary to the business, $156,995.31	$ 379,876.88	
Unrealized exchange losses for 1941 resulting from conversion of the net assets of the Canadian subsidiaries into U. S. dollars	35,351.84	415,228.72
Consolidated earned surplus, balance December 31, 1941, carried to balance sheet		$ 10,882,411.84

(Reference is made to the accompanying notes to financial statements)

NOTES TO FINANCIAL STATEMENTS — DECEMBER 31, 1941

(1) Basis of Consolidation, Foreign Assets, etc.

As in recent previous years, the accompanying consolidated balance sheet and statement of profit and loss and earned surplus include the accounts of the parent company's domestic and Canadian subsidiaries. The English and South African subsidiaries have been excluded from consolidation and the investment in these companies is shown in one amount in the consolidated balance sheet.

The following is a condensed statement of foreign assets and liabilities at December 31, 1941, expressed in U. S. dollars, of the Canadian subsidiaries combined and the English and South African subsidiaries combined:

	Canadian subsidiaries combined (*assets and liabilities included in the consolidated balance sheet*)	English and South African subsidiaries combined (*carried as an investment in the consolidated balance sheet*)
Current assets (*including $523,147 of cash, marketable securities and call loans of Canadian subsidiaries*)	$2,023,260	$745,002
Current and other liabilities	423,303	281,674
Net	$1,599,957	$463,328
Fixed properties and other assets	839,984	42,241
Total (excess of assets over liabilities)	$2,439,941	$505,569

In addition to the above foreign assets and liabilities, the marketable securities shown in the accompanying consolidated balance sheet include $69,983 of English securities held by a domestic subsidiary.

The consolidated net profit for the year includes $140,228, expressed in U. S. dollars, of undistributed earnings of the Canadian subsidiaries, before deducting charges to consolidated earned surplus, totaling $119,177, in respect of real estate and unrealized exchange losses applicable to these companies. The consolidated earned surplus at the end of the year includes $797,892 of accumulated undistributed earnings of the Canadian subsidiaries which are subject to such restrictions as to distribution as may be imposed by exchange regulatory authorities. Earnings of the unconsolidated English and South African subsidiaries for the year, amounting to approximately $25,000 in U. S. dollars, have not been reflected in the consolidated statement of profit and loss.

(2) Inventories

The inventories of the consolidated companies have been priced on the basis of cost or market, whichever lower, applied to individual items or grades. Cost at December 31, 1941 and 1940 was less than market in practically all cases.

The costs reflected in the closing and beginning inventories represent current actual or current average purchase or manufacturing costs, and the general effect of this basis of pricing has been that sales for the year have been costed on the "first in, first out" principle. Intercompany profits included in the inventories have been estimated and eliminated in consolidation.

(3) Reserves for Estimated Federal and Canadian Income and Excess Profits Taxes

The companies' liability for Federal and Canadian income and excess profits taxes is subject to final determination by the respective taxing authorities. The reserves provided therefor, with particular reference to the reserve of $300,000 for estimated Federal excess profits taxes, are believed to be reasonable after consideration of the various elements involved. However, the application to this company and its domestic subsidiaries of many of the provisions of the current Federal excess profits tax statute and regulations issued thereunder is uncertain, and it is possible that the amount of such tax ultimately determined may be substantially more or less than the $300,000 provided.

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET
BOSTON

February 26, 1942

To the Board of Directors
of United Drug, Inc.:

We have examined the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as at December 31, 1941 and the consolidated statement of profit and loss and earned surplus for the year ending on that date, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included the verification of the cash in banks through certificates obtained from the depositaries, inspection of the securities, observations and test counts of the inventories during the year, test confirmations of a substantial portion of the receivables by correspondence with the debtors, and all other procedures which we considered necessary.

In the accompanying consolidated statement of profit and loss and earned surplus certain real estate losses, amounting to $379,876.88, have been charged to earned surplus instead of to profit and loss.

In our opinion, subject to the comment contained in the preceding paragraph, the accompanying consolidated balance sheet and related consolidated statement of profit and loss and earned surplus, with the accompanying notes to financial statements, present fairly the position of United Drug, Inc. and its subsidiary companies at December 31, 1941 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.